Annual Report 1996

Deep Basin Energy Inc.

Corporate Profile and Strategic Objectives

Deep Basin Energy Inc. was incorporated on July 29, 1988 and listed on the Alberta Stock Exchange effective March 8, 1989 (trading symbol "DBN"). Our corporate philosophy is the "generation of asset growth through acqusition, exploitation and exploration in a manner that maximizes shareholder value".

To this end, the Company has moved from being a 40 BOPD producer at the beginning of fiscal 1994 to a 625 BOPD producer at the end of fiscal 1996. Rationalization of existing working interests in Company-held properties, combined with development drilling and facility upgrades, have contributed to a solid base from which to grow the Company assets.

Our corporate philosophy will be achieved by maximizing per barrel netbacks through astute operating practices, focusing on core areas for development, and exploring in selective geographic zones of the Western Canadian sedimentary basin with which our corporate personnel have experience and expertise. The strong team focus and professionally qualified staff at Deep Basin Energy Inc. are working diligently towards these ends.

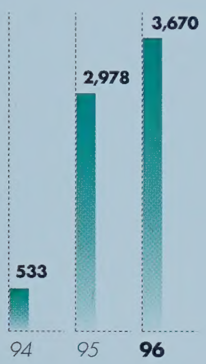
Contents

Notice of Annual Meeting of Shareholders

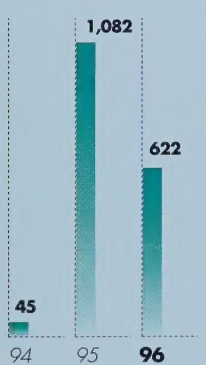
The Annual General and Special Meeting of Shareholders is scheduled to take place on Thursday, September 26,1996 at 10 AM in the Plaza Room at the Metropolitan Centre, 333 - 4th Avenue S.W. Calgary, Alberta, T2P 0K9.

Corporate Highlights

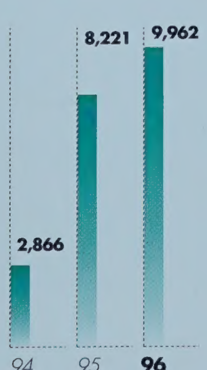
REVENUES
$ 000



CASH FLOW
$ 000



TOTAL ASSETS
$ 000



Years ended March 31	**1996**	1995
Financial		
($000's) except per share data		
Total revenue	**3,670**	2,978
Cash flow	**622**	1,082
Per common share	**0.10**	0.22
Net earnings (loss)	**(130)**	397
Per common share	**(0.03)**	0.09
Working capital	**7**	197
Capital expenditures	**3,084**	5,208
Bank indebtedness	**5,900**	4,945
Shareholder's equity	**2,767**	2,112
Operating		
Production		
Oil & Ngl's - bbls per day	**407**	335
Gas - mcf per day	**330**	265
Total BOE (000's)	**161**	132
Annual average BOE per day	**440**	361
Exit BOE per day	**625**	501
Prices (Cdn. $)		
Oil & Ngl's - $/bbl	**22.00**	22.17
Gas - $/mcf	**1.10**	1.75
Average price per BOE	**21.18**	21.86

Kelly D. Kerr
President and CEO

Deep Basin's '96 activities focused on asset consolidation, rationalization, development and planning:

- *Acquisitions of partner's interests at Clive, Weyburn and Workman*
- *New $6 million revolving line of credit negotiated with bank*
- *Completion of private placement raised $786,000*
- *Non-core property disposals generated $595,000*
- *Capital expenditures totalled $3.1 million*
- *New engineering and geological studies show considerable untapped productive capacity in existing properties*
- *West Drumheller properties sold after year end for $2.1 million*

We are pleased to present Deep Basin Energy Inc.'s March 31, 1996 annual report to shareholders. Fiscal 1996 marked a period of asset consolidation, rationalization, development and planning for the future growth of Deep Basin. The year was highlighted by the acquisition of partners' interests at Clive, Weyburn and Workman, by the disposal of the Company's interests in the Pembina area and by the drilling of a successful 100% working interest horizontal well at Weyburn, Saskatchewan. In addition, pursuant to the approval of our shareholders, a 4 to 1 share consolidation and name change to Deep Basin Energy Inc. was completed on September 28, 1995.

FINANCIAL / OPERATIONS During the year, Deep Basin negotiated a new $6 million revolving credit facility with its bankers generating incremental capital of $1 million which allowed the Company to proceed with its acquisition and development plans during a period of low investor confidence in the junior oil equity market. The Company also completed a private placement amongst its officers, directors, employees and business associates that raised $786,000, disposed of properties in non-core areas which generated $595,000 and generated over $620,000 in positive cash flow for reinvestment. Total re-investable funds generated from these initiatives amounted to more than $3 million.

Over $3 million in reinvestable funds generated

Much of the year was spent analyzing our properties from an engineering, geological, ownership and financial perspective. Initial reviews contemplated improvement potential through recompletions, pump changes, facility changes and infill drilling. Improvement projects were then graded based upon risk and probable impact to production and cash flow. Prior to the commencement of development plans, highly rated properties were reviewed for acquisition potential and other opportunities. Properties that were not viewed to have development potential or operational upside were placed on our divestiture list.
In this fiscal year, Deep Basin incurred capital expenditures in the following categories:

ACQUISITION - $1,048,000 At Clive, partners' interests were purchased which increased the Company's total ownership from 52.5% to 56.875% operated working interest. At Haynes, additional crown mineral rights were purchased enhancing Deep Basin's interest in this area to a half section of 100% operated mineral rights. At Workman, Deep Basin acquired an additional 21.6275% interest in the Workman Frobisher Voluntary Unit No. 1 leaving the Company with a 25% working interest. At Weyburn, starting with a 40% operated working interest, Deep Basin has purchased several partners' interests to end the year with an average 90% working interest over 2.5 sections of land.

Property analysis a major '96 activity

WORKOVERS, FACILITIES AND RECOMPLETIONS - $927,000 This work consisted of a number of activities including submersible pump installations at Haynes and West Drumheller, production re-routing at Clive, uphole recompletions at Fire and West Drumheller and the installation of a new processing facility at West Drumheller.

DRILLING - $849,000 At Warner, in southern Alberta, the Company drilled a 52% working interest dry exploration well. At Little Bow, in southern Alberta, the Company participated in the drilling of two successful 2.5% working interest development oil wells. At Weyburn, in southeast Saskatchewan, Deep Basin encountered its greatest success to date by drilling a 100% working interest horizontal well. This well has produced as much as 130 BOPD since it was tied-in during January 1996. Production from this well can be increased when improvements have been made to the Company's water disposal facility on this property.

Capital program $3.1 million

SEISMIC - $173,000 Two seismic programs were shot during the year; a 2-D program at Warner and a 3-D program at Clive. In addition, geophysical data was purchased and reprocessed over Deep Basin's acreage at Haynes and Weyburn. This work has assisted Deep Basin in geologically evaluating its properties and has identified a number of high quality, low risk infill drilling projects.

Operationally, Deep Basin experienced success in a number of key areas including average production which increased 22% to 440 BOED, total revenues which increased by 24% to $3.69 million and total assets which increased 21% to $9.96 million. Of primary importance is the change in the composition of Deep Basin's reserves where long term gas development potential has been exchanged for near term oil development potential.

On a per BOE basis, general and administrative expenses and well operating expenses were higher than expected averaging $3.40 and $9.08 per BOE respectively. General and administrative expenses increased as a result of having staff for a full year in 1996 compared to only a portion of the year in 1995. Well operating expenses were higher as a result of remedial work performed on a number of properties, as well as the need to truck water and oil at Weyburn as a result of problems which existed with the facilities on that property. Production volumes, over which to spread these costs, were less than budget due to longer than anticipated down-time for remedial activities such as rebuilding the processing facility at West Drumheller and re-routing production at Clive.

Average production increased 22% to 440 BOED

Deep Basin expected to make a large producing property acquisition during fiscal 1996 which would have had a dramatic positive impact on per BOE expense figures, had such an acquisition been made. Competition in the market for producing assets was at a peak during this past year with prices paid pushing the limits of economic viability for the properties being sold. Deep Basin tendered bids on a number of larger properties this year, however, we were unable to justify the premium prices which were tendered for the properties and, accordingly, we were not successful at closing a larger acquisition.

Strategy/Outlook Our corporate objective is to generate asset growth through acquisition, exploitation and exploration in such a manner that will maximize shareholder value. To that end, we will strive to enhance our current properties to achieve optimum production levels. We will also continue to search for opportunities to acquire properties with development potential that will compliment our existing lands so as to focus our expertise in strategic areas. We will utilize our philosophy of first maximizing property netbacks, then maximizing property production.

Concentration on high quality oil properties

We will continue to concentrate on high quality oil properties while remaining open to attractive gas property acquisitions and merger opportunities. Development activities will be directed to the Company's high working interest oil properties at Clive, Haynes and Weyburn. Development work will consist of pumping and processing equipment upgrades, recompletions and horizontal and vertical infill drilling. Deep Basin has plans for the drilling of 16 low risk infill development wells (7.26 net) on Company lands. This will represent the most active drilling year in the Company's history. Production and cashflow are expected to increase substantially as a result of these projects.

Development focused on 16 low risk wells

In May 1996, Deep Basin negotiated the disposal of its West Drumheller property to an industry partner for proceeds of $2.1 million. The transaction is to close in late July 1996 and the proceeds will be used for initiating the development plans as noted above and to reduce the Company's bank indebtedness by $1.5 million. The sale price negotiated for this property is equivalent to $9.43 per barrel of proved reserves and $5.21 per barrel of proved plus probable reserves, which are very competitive prices compared to the industry. The use of proceeds is consistent with our corporate goal of becoming less reliant on debt financing.

The growth and success realized during fiscal 1996 is the direct result of the spirited efforts of the entrepreneurial team of people involved with this Company. We thank everyone who has contributed toward the building of this healthy, growing and dynamic Company.

On behalf of the Board of Directors, we thank you, our shareholders, for your continued confidence.

Kelly D. Kerr
President
July 22, 1996

Art Blott
Chief Geologist
Don Schulte
Vice President Operations
Sandy Drinnan
Vice President Land

Asset growth will largely come through acquisition, exploitation and exploration.

- *New engineering and geological studies conclude that Clive and Haynes properties have considerable untapped productive capacity.*
- *Drilling and optimization activities will increase Clive field production to 450 BOPD*
- *Haynes volumes are expected to increase by 150 BOPD*
- *New horizontal well at Weyburn averaging 100 BOPD*
- *Interest in Workman increased to 25% during fiscal 1996*

CLIVE The Company owns 240 acres in the Clive area of central Alberta. This 56.875% working interest operated property is comprised of two oil wells producing a total of 77 BPD of 40° API oil from the Nisku formation, a production satellite, and a salt water disposal well. An engineering and geological review of the property had concluded that considerable productive capability existed that could be realised through infill drilling and production optimization. To that end, a 3-D seismic program was shot in January, 1996. This activity has identified three infill drilling locations on Company acreage. Plans for fiscal 1997 include the drilling of these three infill wells, optimization of the existing oil wells through enhancement of artificial lift capabilities, and the addition of a free-water knockout to the production satellite to handle the higher fluid volumes. Expectations are that these activities will increase field output to over 450 BOPD.

Most active drilling year ever in fiscal '97 - 16 low risk wells

HAYNES The Company owns 320 acres in the Haynes area of central Alberta. This 100% working interest property consists of one oil well producing 37 BPD of 40° API oil from the Ireton formation, a production satellite, and a salt water disposal well. During fiscal 1996, funds were expended to upgrade the artificial lift equipment from a pumpjack and fiberglass rod string to a submersible pump. The expenditure increased production to 37 BOPD from 13 BOPD and significantly reduced well down time. A geological and geophysical review of this property concluded that additional drilling potential exists on Company lands. Capital expenditures in fiscal 1997 include the drilling of two infill locations and the upgrade of production facilities to fully optimize production potential. The Company expects that volumes from the property should increase by 150 BOPD as a result of this activity.

Development focus is on maximizing property netbacks

WEYBURN The Company owns 1,600 acres of mineral rights in the Weyburn area of southeast Saskatchewan. This 90% working interest operated property has nine oil wells producing a total of 152 BPD of 33° API oil from the Midale and Frobisher formations into a Company operated battery facility and salt water disposal well. The Company undertook an extensive geological review of both the Midale and Frobisher formations in and around its land holdings, including a detailed core study. The result was the drilling of a 100% working interest Frobisher horizontal well in November, 1995. This well has averaged 100 BOPD at a 90% watercut, with additional productive capability yet to be realized due to bottlenecks in the battery salt water disposal system. Plans for fiscal 1997 include modifications to the battery and salt water disposal system, and the drilling of two Midale horizontal wells. These activities are expected to add 200 BOPD to the existing production. In addition, Deep Basin has recently signed two deals which will give the Company a 100% working interest in the property.

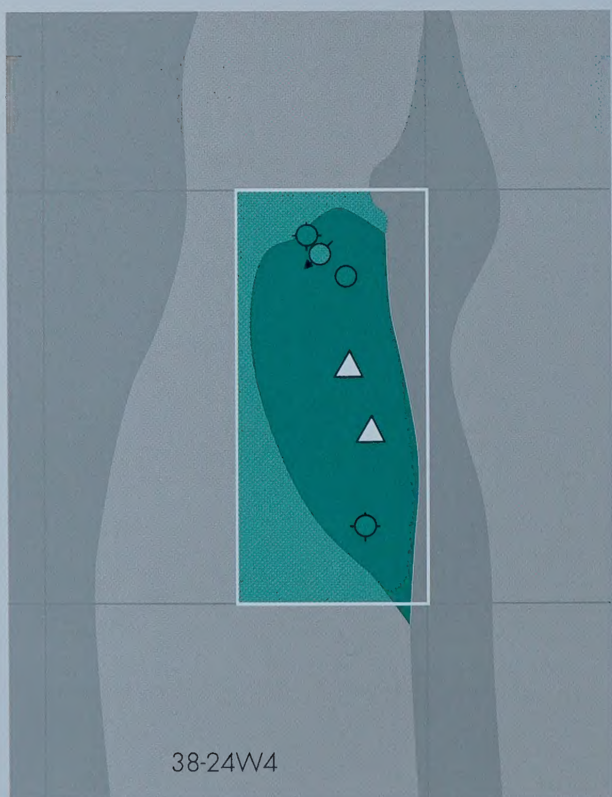
WORKMAN The Company holds interests in approximately 4,500 acres of land in the Workman area of southeast Saskatchewan. Deep Basin's holdings consist of a 25% non-operated working interest in the Workman Frobisher Voluntary Unit No. 1 and a 55.625% non-operated working interest in non-unit Frobisher production. Total production from this property is 348 BPD of 33° API oil. During fiscal 1996, the Company increased its working interest in the Workman Unit from 3.3725% to the present level of 25% through an acquisition. For fiscal 1997, the Company expects to participate in the drilling of three infill wells in the unit. Pending the results of this activity, additional capital expenditures may occur during the year as the Company and its unit partners move towards maximizing production and reserve recovery.

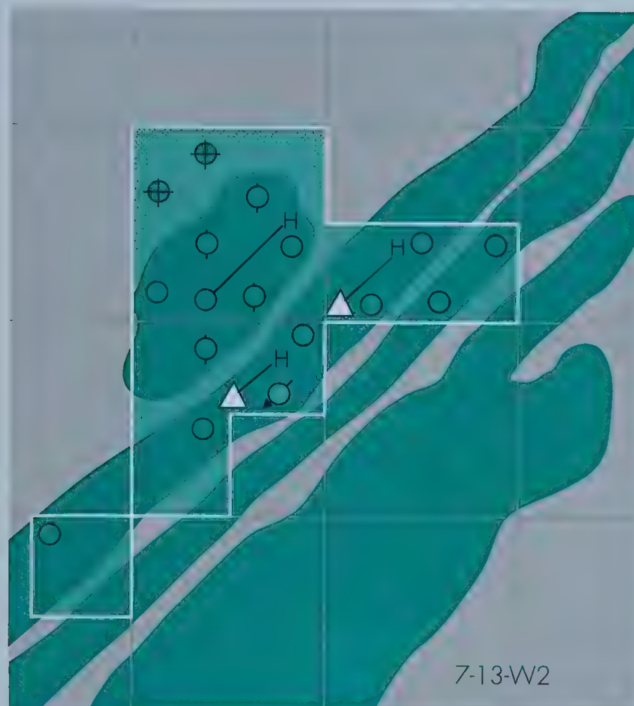
1 CLIVE

- *Operated-56.875% W.I*
- *77 BOPD (45 Net) - 40° oil (Nisku zone)*
- *3 infill wells to be drilled in fiscal 1997*
- *2 pump changes and facility upgrade in fiscal 1997*

2 HAYNES

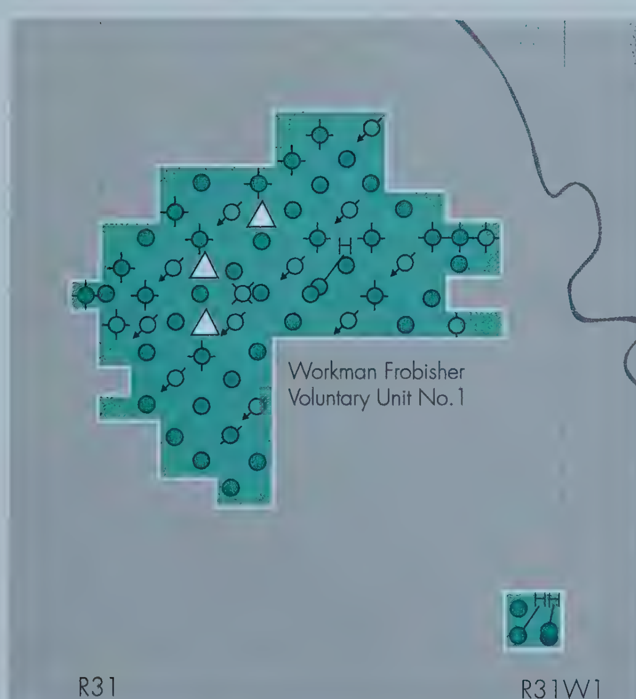
- *Operated-100% W.I*
- *37 BOPD - 40° oil (Ireton zone)*
- *2 infill wells to be drilled in fiscal 1997*
- *Facility upgrade in fiscal 1997*





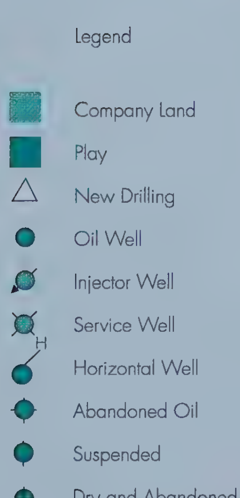
3 WEYBURN

- *Operated - 90% W.I*
- *152 BOPD (137 Net) 33° oil (Frobisher, Midale zone)*
- *2 horizontal infill wells to be drilled in fiscal 1997*
- *Acquisitions negotiated increasing W.I. to 100%*



4 WORKMAN

- *Non-operated - Unit 25% W.I., Non-unit - 55.625% W.I.*
- *348 BOPD (117 Net) - 33° oil (Frobisher zone)*
- *3 infill unit wells to be drilled in fiscal 1997*



John Gillett
Controller
Terri Johnson
Reception
Sara Kast
Accounting
Kelly Kerr
President
Joanne Laye
Land Administration

Deep Basin was successful in achieving new financial and production records in fiscal year 1996:

- *24% increase in total revenue to $3.67 million*
- *25% increase in exit production to 625 BOED*
- *Private placement completed generating $786,000*
- *Property disposals generated $595,000*
- *Capital expenditures totalled $3.1 million*

1996 Financial and Operational Highlights

- Operating and financial results were dominated by a rationalization program that identified the core properties from the prior year's significant $4 million acquisition of a variety of producing properties
- Company interests in the core areas of Clive, Haynes, Weyburn and Workman were increased through acquisitions of partner working interests and other rights in these areas
- Facility upgrades and pump modifications resulted in more efficient production methods
- A successful horizontal well was drilled at Weyburn in southeast Saskatchewan averaging 100 bopd
- Production revenues increased $ .69 million to $3.58 million on incremental production of 32,959 boe's
- Capital expenditures during fiscal 1996 were $3.08 million gross and $2.49 million net of disposals

Financial Highlights

	1996	1995	1994
($000's except per share data)			
Petroleum and natural gas revenues	**3,670**	2,978	533
Cash flow from operations	**622**	1,082	45
Per share (basic)	**0.13**	0.25	-
Per share (fully diluted)	**0.10**	0.22	-
Net income (loss)	**(130)**	397	(122)
Per share (basic)	**(0.03)**	0.09	(0.01)
Per share (fully diluted)	**(0.03)**	0.09	(0.01)
Net capital expenditures	**2,489**	5,102	1,894
Bank indebtedness	**5,900**	4,945	950
Shareholder's equity	**2,767**	2,112	1,513

Share Trading History

	1996	1995	1994
Price range *($ per share)*			
High	**0.80**	1.32	1.60
Low	**0.55**	0.76	0.64
Close	**0.65**	1.00	0.96
Trading volume *(000's)*	**941**	1,442	2,490
Market capitalization *($000's)*	**3,667**	4,517	3,775

Production Revenues

Overall revenues generated by oil and gas operations increased by $.69 million (23%) for the year ended March 31, 1996. The increase is attributable to incremental production from ongoing development of existing core properties of the Company. Analysis by product indicates oil and natural gas liquids sales accounted for $3.45 million of revenues with $0.14 million being generated by natural gas sales and $0.08 million attributed to processing services.

Production Volumes

Exit production at March 31, 1996 was 625 BOE per day. This is a 25% increase over March 31, 1995 exit production of 501 BOE per day. Drilling of the horizontal well at Weyburn, Saskatchewan was the primary reason for this increase.

Pricing

Deep Basin Energy Inc. historically focused on exploring for and developing high quality, light gravity oil reserves. Management expects to attain a high dollar value return on present and future reserves of the Company from continued focus on such reserves.
Consistent with market conditions, Deep Basin received substantially lower prices for its gas production during fiscal 1996.

	1996	1995	1994
Revenues *($000's)*			
Oil and NGL sales	**3,448**	2,711	497
Natural gas sales	**144**	169	16
Processing revenue	**78**	98	20
Total	**3,670**	2,978	533
Volumes			
Oil and NGL (BOED)	**407**	335	78
Natural gas (MCFD)	**330**	265	21
Total average BOED	**440**	361	81
Total BOE (000's)	**161**	132	30
Exit Production (BOED)	**625**	501	173
Price *(Cdn. $)*			
Oil and NGL (per bbl)	**22.00**	22.17	17.45
Natural gas (per mcf)	**1.10**	1.75	2.05
Average price (per BOE)	**21.18**	21.86	17.37

Royalties

Overall royalty expenses, including crown, freehold, and overriding royalties, rose $0.2 million (54%) during 1996. On a BOE basis, the rate for the year was $3.57 per BOE compared to $2.83 per BOE in 1995. On a percentage of sales basis, the percentage in 1996 was 15.6% compared to 12.5% for 1995. The primary factor for the increase was the full year of production on the properties acquired halfway through the previous fiscal year. Higher production from freehold properties in combination with higher product prices in various months resulted in higher royalty rates as a percent of sales.

Operating Expenses

Operating expenses jumped $0.45 million (45%) over the prior year due to a full year of production on those properties acquired in 1995. Production difficulties at Haynes and Weyburn, combined with some excessive costs on non-operated properties, resulted in increased costs per BOE produced to $9.08 in 1996 compared to $7.63 in 1995. Facility upgrades on core properties to be undertaken during fiscal 1997 will improve operating costs and efficiencies. The Company's future focus in this expense category is to limit ownership in non-operated properties thereby facilitating cost controls on owned and operated properties.

	1996	1995	1994
Operating expenses *($ 000's)*	**1,459**	1,007	286
$ Per BOE	**9.08**	7.63	9.53
% of revenues	**39.8%**	33.8%	53.7%

Netbacks

1996 netback figures were lower than anticipated. Excess operating costs and higher royalty rates impacted on management expectations for 1996. Improvements in operating efficiencies in fiscal 1997 will lead to improved netbacks.

	1996	1995	1994
($ per BOE)			
Sales	**21.18**	21.86	17.37
Royalty expense	**3.57**	2.82	1.79
Operating expense	**9.08**	7.63	9.53
Netbacks per BOE	**8.53**	11.41	6.05

Depletion, Depreciation and Amortization

DD&A charges of $0.78 million increased 97% over 1995 charges of $0.39 million. Depletion on a BOE basis was $4.16 per BOE in 1996 versus $2.30 per BOE in 1995. Property dispositions in combination with downgrading of gas reserves due to price declines created this upward trend. At a depletion rate of $4.16 per BOE, the Company remains competitive with the rest of the industry.

General and Administrative Expenses

General and administrative expenses increased $0.25 million (24%) to $0.55 million during 1996 compared to $0.30 million in 1995. On a unit of production basis, general and administrative costs were $3.40 per BOE in 1996 versus $2.25 per BOE in 1995. The Company capitalized $0.15 million of costs directly attributable to acquisition and development activities during the year. There is fully qualified staff in place with an administrative infrastructure capable of handling the next growth phase of the Company. Management does not expect any significant increase in general and administrative costs in the coming fiscal period.

General and Administrative Expenses (con't)

	1996	1995	1994
General and administrative costs *($ 000's)*	**547**	296	239
$ Per BOE	**3.40**	2.25	7.97
% of revenues	**14.8%**	9.9%	44.8%
Capitalized general and administrative costs	**148**	36	49

Taxes

Deep Basin Energy Inc. has tax pools of $7.52 million at March 31, 1996. The Company was not subject to current income tax in fiscal 1996.

Tax Pools *($ 000's)*	Deduction Rate	Tax Pool Balance
Canadian exploration expense	100%	473
Canadian development expense	30%	1,332
Canadian oil and gas property expense	10%	3,190
Foreign exploration and development expense	10%	87
Undepreciated capital cost	8% to 50%	2,433

Interest Expense

Interest on bank indebtedness was $ 0.49 million in 1996 compared to $0.22 million in 1995. Bank indebtedness was drawn for a full year in 1996 compared to the six month period subsequent to the major acquisition in 1995. Lower interest rates had a positive impact on the Company cost of financing during fiscal 1996.

Capital Expenditures and Reserves

1996 was a consolidation period for Deep Basin Energy Inc. The major acqusition in fiscal 1995 left the Company with a diverse number of operated and non-operated working interest properties. Management's focus became one of core area identification including disposition of non-growth and non-productive assets. Net additions for the year were $2.49 million consisting of gross additions of $3.08 million offset with $0.59 million in property disposals. No material gains or losses were recorded on the disposals and no material reduction of reserves resulted.

Drilling of a 100% working interest horizontal well at Weyburn Saskatchewan, acquisition of additional core property working interests and the cost of constructing a new processing facility at West Drumheller Alberta at 75% working interest highlighted Deep Basin's capital program in fiscal 1996.

Based on the property rationalization process, management has identified low risk development drilling projects and facility improvement projects in the core areas. These projects will enhance future reserves at a reasonable development and on-stream costs to the Company.

	1996	1995	1994
Capital Expenditures ($ 000's)			
Petroleum and natural gas rights - other	**377**	219	228
Producing property acquisitions			
Petroleum and natural gas rights	**492**	2,940	770
Tangible production equipment	**128**	1,230	330
Capitalized overhead	**147**	36	50
Geological and geophysical	**173**	61	123
Drilling and completion	**808**	598	351
Well equipment and facilities	**882**	191	31
Furniture and equipment	**77**	38	11
Property disposals	**(595)**	(105)	-
	$ 2,489	$ 5,208	$ 1,894
Capital Expenditure Funding ($ 000's)			
Cash flow from operations	**622**	1,082	45
Disposal proceeds	**595**	105	-
Issuance of share capital	**317**	-	652
Bank indebtedness	**955**	3,995	950
Working capital	**-**	26	247
	$ 2,489	$ 5,208	$ 1,894

Deep Basin Energy Inc. reserves were evaluated by Sproule Associates Limited effective March 31, 1996 and are summarized in the table below.

	OIL & NGL'S (MSTB)			**GAS (MMCF)**			**MBOE (@ 10:1)**		
	Proven	Probable	Total	Proven	Probable	Total	Proven	Probable	Total
April 1, 1995	1,327.2	-	1,327.2	9,217.1	-	9,217.1	2,248.9	-	2,248.9
Production	(148.7)	-	(148.7)	(120.3)	-	(120.3)	(160.7)	-	(160.7)
Additions	812.0	568.9	1,380.9	219.9	252.8	472.7	834.0	594.2	1428.2
Acquisitions	191.2	-	191.2	2.0	-	2.0	191.4	-	191.4
Dispositions	(77.2)	-	(77.2)	(3,197.2)	-	(3,197.2)	(396.9)	-	(396.9)
Revisions	(439.3)	-	(439.3)	(3,272.7)	-	(3,272.7)	(766.6)	-	(766.6)
March 31,1996	**1,665.2**	**568.9**	**2,234.1**	**2,848.8**	**252.8**	**3,101.6**	**1,950.1**	**594.2**	**2,544.3**

During fiscal 1996, Deep Basin's total reserves increased by 13 percent to 2.54 million equivalent barrels with 161 thousand barrels being produced during the year. For the year, 1.4 million barrels of proven and probable reserves were added, providing a reserve replacement ratio of 8.9:1.

Proven oil and liquids reserves increased by 25 percent to 1.67 million barrels while proven and probable oil and liquids reserves increased by 68 percent to 2.23 million barrels. Proven gas reserves decreased by 69 percent to 2.8 BCF while proven and probable gas reserves decreased by 66 percent to 3.1 BCF.

The Company's proven reserve life index sits at 8.5 years and the proven plus probable reserve life index is 11 years.

Liquidity and Capital Resources

The Company ended fiscal 1996 in a positive working capital position. Unexpected delays in a non-operated facility turnaround combined with unanticipated equipment difficulties on Company operated properties resulted in tight working capital conditions during the second and third quarters. A private placement for net proceeds of $0.78 million in the third quarter assisted in the company following through on a successful Weyburn horizontal development drilling project. Management of the Company anticipates an improved working capital position during the upcoming fiscal year as a result of production increases from development projects and the effect of new sources of financing.

	1996	1995	1994
Working Capital *($000's)*			
Current assets	**773**	828	276
Current liabilities	**766**	632	218
Net working capital	**7**	196	58

	1996	1995	1994
Debt to Equity Ratio *($000's)*			
Bank indebtedness	**5,900**	4,945	950
Shareholder's equity	**2,767**	2,112	1,513
Debt to equity ratio	**2.13**	2.34	0.63

Site Restoration and Abandonment Costs

The liability for site restoration and abandonment costs to March 31, 1996 is $99,350. The Company charged $55,800 to income in the current year for future site restoration costs. The amortization rate is based on the depletion of reserves through annual production. This charge is included in depreciation and amortization in the statement of operations and retained earnings. Actual abandonment costs for the year were $36,600 and were offset against the future abandonment costs liability on the balance sheet. Through the property rationalization process the Company has managed to divest itself of properties with upcoming abandonments attached to them. Management continues to work at divesting of such non-productive assets.

Land position

	1996		1995	
Undeveloped Lands *(Acres)*	**GROSS**	**NET**	GROSS	NET
Alberta	**38,410**	**10,932**	67,035	26,972
Saskatchewan	**5,207**	**1,675**	5,280	2,020
British Columbia	**1,318**	**461**	1,318	461
Total	**44,935**	**13,068**	73,633	29,453

Net Asset Value

	1996	1995	1994
($000's except per share data)			
Net present value of proven reserves, discounted at 15% before tax	**14,933**	14,002	4,350
Net present value of probable reserves, discounted at 15% before tax and risked at 50%	**1,228**	*	*
Undeveloped land	**505**	758	*
Bank indebtedness	**(5,900)**	(4,945)	(950)
Working capital	**7**	206	58
Cash on exercise of options and warrants	**1,344**	799	501
Net asset value	**12,117**	10,820	3,959
Fully diluted common shares *(000's)*	**6,445**	4,987	4,587
Net asset value per fully diluted common share	**1.88**	2.17	0.87

* *Probable reserves and undeveloped lands not evaluated for these periods*

Environment and Safety

Deep Basin's Management and Board of Directors have addressed the environmental impact of the Company's operations and the risk of personal injury to its employees and contractors.

To combat environmental risks, the Company maintains site specific emergency response plans for each of its facility sites. Deep Basin continues to be an active participant in oil spill cooperatives in its areas of operation. Those cooperatives provide training, equipment and expertise in dealing with oilfield spills and related environmental issues. Prior to commencing operations in areas with specific environmental concerns, Deep Basin commissions a site specific environmental assessment which outlines potential for environmental damage and establishes procedures to minimize environmental impact on the site. In all cases, Deep Basin conducts predisturbance surveys to provide baseline data for surface reclamation purposes.

Deep Basin is committed to the protection of life and property in all that it seeks to achieve as an active oil & gas producer. Accordingly, our goal is to ensure the health and safety of our employees and all others involved or impacted by our operations.

For its part, the Company will be responsible for seeking every reasonable means to provide a safe work environment; employ personnel with the skills, training and equipment required to complete their jobs in a safe manner; and use practices and procedures which meet or exceed regulatory or recognized industry standards . As well, the Company will encourage the active involvement and support of its employees in promoting and carrying out an effective safety program. Deep Basin's management and supervisory personnel will have direct responsibility for ensuring these objectives are met.

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles and the financial and operating information presented throughout this annual report is consistent with that which is shown in the financial statements. The integrity of data in these financial statements is the responsibility of management and to this end, management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce reliable accounting records.

External auditors appointed by shareholders have conducted an independent examination of corporate and accounting records in order to express their opinion on the financial statements for the years ended March 31, 1996 and 1995. The Audit Committee has reviewed these statements with management and the auditors and has reported to the board of directors. The board has approved the financial statements of Deep Basin Energy Inc. which are contained in this annual report.

Kelly D. Kerr

Kelly D. Kerr, President and Chief Executive Officer
Calgary, Alberta
July 22, 1996

Auditors' Report

To the Shareholders of Deep Basin Energy Inc.

We have audited the balance sheets of Deep Basin Energy Inc. as at March 31, 1996 and 1995 and the statements of operations and retained earnings (deficit) and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants

Calgary, Canada
June 7, 1996

As at March 31, 1996 and 1995	**1996**	1995
Assets		
Current assets:		
Cash	**$ 38,266**	$ 28,819
Accounts receivable	**648,794**	714,033
Prepaids, deposits and other items	**86,040**	85,486
	773,100	828,338
Capital assets (Note 2)	**9,162,821**	7,307,662
Deferred finance fees	**25,799**	85,302
	$ 9,961,720	$ 8,221,302
Liabilities		
Current liabilities:		
Accounts payable	**$ 765,523**	$ 631,636
Bank indebtedness (Note 3)	**5,900,000**	4,945,000
Future abandonment costs	**99,350**	80,102
Deferred income taxes	**429,550**	453,000
	7,194,423	6,109,738
Shareholders' Equity		
Share capital (Note 4)	**2,500,045**	1,714,161
Retained earnings	**267,252**	397,403
	2,767,297	2,111,564
	$ 9,961,720	$ 8,221,302

See accompanying notes to financial statements
Commitment - Note 7

Approved on behalf of the Board:

R. J. Kolstad
Director

Director

Statements of Operations and Retained Earnings

Years ended March 31, 1996 and 1995	**1996**	1995
Revenues		
Oil and gas sales	**$3,574,905**	$2,884,410
Royalty income	**95,280**	94,297
Other income	**16,627**	724
	3,686,812	2,979,431
Expenses		
Well operating	**1,459,042**	1,006,672
Depletion	**668,900**	303,000
Royalties	**573,155**	372,290
General and administrative	**547,096**	295,713
Interest on bank indebtedness	**485,349**	222,494
Depreciation and amortization	**106,871**	90,985
	3,840,413	2,291,154
Income (loss) before income taxes	**(153,601)**	688,277
Income taxes (recovery) (Note 5)		
Deferred	**(23,450)**	290,874
	(23,450)	290,874
Net income (loss)	**(130,151)**	397,403
Retained earnings (deficit) beginning of year	**397,403**	(1,619,808)
Elimination of deficit (Note 4e)	**-**	1,619,808
Retained earnings end of year	**$ 267,252**	$ 397,403
Income (loss) per share:		
Basic	**($ 0.03)**	$ 0.09

See accompanying notes to financial statements

Years ended March 31, 1996 and 1995	**1996**	1995
Operating activities:		
Net income	**($ 130,151)**	$ 397,403
Items not involving cash:		
Depletion, depreciation and amortization	**775,771**	393,985
Deferred income taxes	**(23,450)**	290,874
Funds from operations	**622,170**	1,082,262
Net change in non-cash working capital items related to operations	**35,881**	(29,391)
Cash provided by operating activities	**658,051**	1,052,871
Financing activities:		
Bank indebtedness:		
Advances	**5,900,000**	4,450,000
Repayments	**(4,945,000)**	(455,000)
Deferred finance fees	**(26,333)**	(28,485)
Issuance of share capital	**785,884**	493,500
Obligation to issue share capital	**-**	(292,000)
Cash provided by financing activities	**1,714,551**	4,168,015
Investing activities:		
Additions to capital assets	**(3,084,194)**	(5,207,790)
Proceeds on disposal of capital assets	**594,900**	105,000
Future abandonment costs	**(36,552)**	(8,869)
Net change in non-cash working capital items related to investing activities	**162,691**	(94,206)
Cash used in investing activities	**(2,363,155)**	(5,205,865)
Increase in cash for the year	**9,447**	15,021
Cash, beginning of year	**28,819**	13,798
Cash, end of year	**$ 38,266**	$ 28,819
Funds from operations per share:		
Basic	**$0.13**	$0.25
Fully Diluted	**$0.10**	$0.22

See accompanying notes to financial statements

Years ended March 31, 1996 and 1995

1 Significant accounting policies

a) Joint Interest Operations

Substantially all of the Company's exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

b) Oil and Gas Operations

The Company follows the full cost method of accounting for its oil and gas operations, whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, costs of production and gathering equipment and administrative charges directly related to acquisition, exploration and development activities. Proceeds from the disposal of oil and natural gas properties are applied against capitalized costs. Gains or losses are not recognized on disposals unless crediting the proceeds against capitalized costs would materially alter the rate of depletion.

The capitalized costs together with estimated future capital costs associated with the development of proven reserves are depleted and depreciated using the unit of production method based on proven oil and natural gas reserves, before royalties, determined by independent engineers. For purpose of the depletion and depreciation calculations, oil and natural gas reserves are converted to a common unit of measure based upon their relative energy content.

Costs of acquiring and evaluating unproved properties are initially excluded from the depletion calculation. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned, or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed the estimated future net revenues from production of proven reserves, at prices and operating costs in effect at the year end, plus the cost of unevaluated properties less management's estimate of impairment. The test also provides for estimated future administrative overhead, financing costs, future site restoration costs and taxes.

c) Other Capital Assets

Other capital assets, including office furniture and equipment are depreciated based on estimated useful life on a declining balance basis at rates of 20% to 50% per year, with a half year of depreciation taken in the year of acquisition and in the year of disposal.

d) Future Site Restoration Costs

Provisions for future site restoration costs are made over the life of the Company's petroleum and natural gas properties using the unit of production method. Costs are based on engineering estimates considering current regulations, costs and industry standards. Actual expenditures incurred are applied against deferred future site restoration costs.

e) Measurement Uncertainty

The amounts recorded for depletion and depreciation of property, plant and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

f) Financial Instruments

The Company uses oil swap agreements to hedge its exposure to fluctuations in oil and natural gas prices. Gains and losses arising from these swap arrangements are reported as adjustments to the related revenue account upon the settlement of the financial swap. Financial instruments are not used for trading purposes.

g) Deferred Finance Fees

Deferred finance fees are costs related to the Company's bank and equity financing and are amortized on a straight line basis over five years. Amortization during the current period was $6,519 (1995 - $16,799). During the year, $69,118 in net deferred finance fees were written off.

h) Per Share Amounts

Basic earnings per share and basic cash flow from operations per share have been calculated using the weighted average number of common shares outstanding during the year. Fully diluted figures reflect the exercise of options and warrants at the later of the date of issuance or the beginning of the year. The imputed interest rate used for calculating fully diluted per share amounts is 7.75% (1995 - 10.25%). Cash flow from operations per share does not give effect to the change in non-cash working capital items related to operations.

2 Capital assets

	1996		
	Cost	**Accumulated Depletion and Depreciation**	**Net Book Value**
Petroleum and natural gas properties	**$ 10,508,858**	**$ 1,452,100**	**$ 9,056,758**
Office furniture and equipment	**150,319**	**44,256**	**106,063**
	$ 10,659,177	**$ 1,496,356**	**$ 9,162,821**

	1995		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	$ 8,096,981	$ 839,000	$ 7,257,981
Office furniture and equipment	72,901	23,220	49,681
	$ 8,169,882	$ 862,220	$ 7,307,662

A ceiling test calculation was performed at the effective date of March 31, 1996 which resulted in the estimated future net revenues from proved reserves exceeding the net book value of the Company's petroleum and natural gas properties. The prices used in the ceiling test calculation at March 31, 1996 were $25.41 per barrel of crude oil and $1.73 per mcf of natural gas. The ceiling test is a cost recovery test and is not intended to result in an estimate of fair market value.

Unevaluated properties not subject to depletion at March 31, 1996 were $504,673 (1995 - $757,982). Capitalized general and administrative costs at March 31, 1996 were $147,592 (1995 - $36,000).

As at March 31, 1996 the estimated future site restoration costs to be accrued over the remaining proved reserves are $662,000 (1995 - $947,000).

3 Bank indebtedness

	1996	1995
Revolving demand loan bearing interest at bank prime plus one percent	**$ 5,900,000**	$ -
Term demand loan bearing interest at bank prime plus one percent	**$ -**	$ 2,695,000
Revolving, reducing demand loan bearing interest at bank prime plus 3/4 of one percent	**$ -**	$ 2,250,000

Bank indebtedness consists of a demand revolving credit facility in the amount of $6,000,000 that bears interest at bank prime rate plus one percent per annum, payable monthly. The credit facility is secured by a fixed and floating charge debenture over all assets of the Company in the amount of $10,000,000 and a general security agreement. The loan has no fixed terms of repayment, is subject to periodic review, and is due on demand. No principal repayments are required in the next year providing the Company satisfies the bank's requirements under the loan agreement.

4 Share capital

a) Authorized -Unlimited number of voting common shares without nominal or par value

b) Issued:

	Number of Shares	Amount
Balance, March 31, 1994 (i)	**3,931,949**	**$ 2,840,469**
Options exercised	213,750	80,500
Warrants exercised	189,063	121,000
Issued as consideration for acquisition of petroleum and natural gas rights (ii)	182,500	292,000
Elimination of deficit (Note 4e)	-	(1,619,808)
Balance, March 31, 1995	**4,517,262**	**$ 1,714,161**
Issued under private placement (iii)	1,125,000	787,500
Share issuance expenses	-	(1,616)
Balance, March 31, 1996	**5,642,262**	**$ 2,500,045**

(i) Pursuant to a special shareholders' resolution dated September 15, 1995, a share consolidation on the basis of four (4) old shares for one (1) new share was completed. In addition, coincident with the share consolidation, the shareholders of the Company approved a name change from "Deep Basin Petroleum Corporation" to "Deep Basin Energy Inc." The share consolidation and name change received regulatory approval on September 28, 1995. The share consolidation is given retroactive adjustment to the number of shares on March 31, 1994 for comparative purposes.

(ii) These shares were issued on April 27, 1994 to a non-related party as consideration for the acquisition of petroleum and natural gas rights. The shares were issued at an attributed value of $0.40 per share, on a pre-consolidation basis, as approved by the directors of the Company.

(iii) These shares were issued between November 20, 1995 and January 10, 1996 to directors, officers, employees and business associates of the Company. The shares were issued for cash at a price of $0.70 per share as approved by the directors of the Company. The shares are subject to a one year trading restriction from date of issue.

c) Share Options

At March 31, 1996, the Company had outstanding options to issue 442,850 (1995 - 421,600) common shares to directors and employees as follows:

Number	Exercise Price	Expiry Date
175,000 to directors	$0.75	May 23, 1999
15,350 to employees	$0.75	May 23, 1999
168,750 to directors	$0.75	January 15, 2000
43,750 to employees	$0.75	January 15, 2000
40,000 to employees	$0.75	June 1, 2000

During the year, 40,000 options at $1.20 per share were granted and 18,750 options with an exercise price of $1.20 expired.

On January 29, 1996, approval was received from regulatory authorities to amend the exercise price of 442,850 options previously issued to certain directors and employees at a price of $1.20 per share to a revised price of $0.75 per share.

d) Warrants

At March 31, 1996, the Company had outstanding warrants to issue 1,125,000 (1995 - 244,500) common shares to directors, employees and private investors. During the year, 1,125,000 warrants at $0.90 were granted and 244,500 warrants with an exercise price of $1.20 expired. All warrants outstanding at March 31, 1996 expire on October 30, 1997.

e) Deficit

Pursuant to a special shareholder's resolution dated September 30, 1994, the stated book value of the Company's common shares was reduced by an amount of $1,619,808 on the elimination of the accumulated deficit to March 31, 1994.

5 Income taxes

The provision for income tax differs from the result which would have been obtained by applying the combined federal and provincial income tax rate to the net income before income taxes. This difference results from the following items:

	1996	1995
Statutory income tax rate	**44.6%**	44.3%
Expected income tax expense (recovery)	**($ 68,506)**	$ 304,907
Crown payments	**160,977**	109,778
Resource allowance	**(132,677)**	(138,792)
Depletion on non-tax base assets	**13,680**	11,980
Other	**3,076**	3,001
	($ 23,450)	$ 290,874

The net book value of non-tax base assets is $443,994 (1995 - $474,700).

The company has income tax pools available of approximately $7,515,000 (1995 - $5,720,000) to offset future taxable income.

6 Hedging transactions

The company periodically uses certain financial instruments to hedge its exposure to commodity price fluctuations on a portion of its oil and gas production. During the year, the Company had net receipts of $90,988 (1995 - $4,626) under crude oil price swap contracts which were credited to net oil and gas sales.

The following hedging contracts were outstanding at March 31, 1996:

a) Swap agreement for 150 barrels per day of oil production over a five year term expiring on December 31, 1999 at a NYMEX basis price of $ 26.09 Cdn. per barrel. The Company has an unrecognized loss on this swap with a fair value of $475,800 (1995 - unrecognized gain of $52,000).

b) Swap agreement for 150 barrels per day of oil production over a one year term expiring on April 30, 1996 at a NYMEX basis price of $26.45 Cdn. per barrel. The Company has an unrecognized loss on this swap with a fair value of $11,000.

Subsequent to year end the Company entered into a Swap agreement for 150 barrels of oil per day, declining at a rate of 20 barrels per day annually, over a five year term expiring on April 30, 2001 at a NYMEX price of $24.50 Cdn. per barrel.

7 Commitment

Office lease:
On March 9, 1995 the Company entered into a five year lease agreement effective June 1, 1995. Under the terms of the agreement the annual rentals for the remaining lease term are as follows:

1997	15,349
1998	18,942
1999	19,595
2000	19,595

8 Subsequent event

In May 1996, the Company signed a commitment to dispose of a significant producing property for proceeds of $2,100,000. The proceeds will be used to retire bank indebtedness and fund ongoing capital projects.

Five Year Summary

	1996	1995	1994	1993	1992
Financial *($ 000's except per share data)*					
Petroleum and natural gas sales	**3,575**	2,884	441	549	937
Royalties	**95**	94	92	152	119
Other revenues	**17**	1	2	26	70
Expenses					
Well operating	**1,459**	1,007	286	226	427
Royalties	**573**	372	54	136	204
Administration	**547**	296	190	324	488
Interest	**485**	222	14	55	119
Depletion, depreciation and amortization	**776**	394	150	241	115
Cash flow from operations	**622**	1,082	45	(131)	(111)
Per common share	**0.10**	0.22	-	(0.01)	(0.01)
Net earnings (loss)	**(130)**	397	(122)	361	(1,693)
Per common share	**(0.03)**	0.09	(0.01)	0.04	(0.18)
Working capital (deficiency)	**7**	197	58	(101)	(645)
Capital expenditures	**3,084**	5,208	1,283	344	96
Total assets	**9,962**	8,221	2,866	865	2,056
Shares outstanding at year end *(000's)*	**5,642**	3,932	3,932	2,946	2,402
Operating					
Production					
Crude oil and liquids (bbl's)	**148,716**	118,189	28,487	32,608	50,312
Natural gas (mcf's)	**120,295**	95,976	7,624	4,299	16,519
Reserves					
Crude oil and liquids (bbl's)					
Proved	**1,665,200**	1,327,200	546,400	267,500	207,474
Proved plus probable	**2,234,100**	1,327,200	546,400	267,500	207,474
Natural gas (mcf's)					
Proved	**2,848,800**	9,217,100	-	-	91,997
Proved plus probable	**3,101,600**	9,217,100	-	-	91,997
Total proved plus probable (BOE)	**2,544,260**	2,248,900	546,400	267,500	216,673
Average price ($)					
Oil and liquids (per bbl)	**22.00**	22.17	17.45	21.27	19.23
Gas (per mcf)	**1.10**	1.75	2.05	1.04	1.29

Corporate Information

Deep Basin Energy Inc. is a public junior petroleum producer, developer and explorer with oil and gas reserves in Saskatchewan and Alberta. The Company head office is in Calgary, Alberta.

Directors and Officers	Kelly D. Kerr - *President and Chief Executive Officer* Robert Kolstad - *Director* Arne Nielsen - *Director* Glen J. Indra - *Director* Alfred V. Webb - *Director* Donald C. Schulte - *Vice-President Operations* Sandra M. Drinnan - *Vice-President Land* John W. Gillett - *Financial Controller*
Head Office	1410, 734 - 7th Avenue S.W. Calgary, Alberta T2P 3P8
Bankers	Alberta Treasury Branches Oil and Gas Department 239 - 8th Avenue S.W. Calgary, Alberta T2P 1B9
Auditors	KPMG Peat Marwick Thorne 1200 Bow Valley Square II 205 - 5th Avenue S.W. Calgary, Alberta T2P 4B9
Lawyer	Miles Davison McCarthy 1600 Bow Valley Square II 205 - 5th Avenue S.W. Calgary, Alberta T2P 2V7
Evaluation Engineers	Sproule Associates Limited 9th flr. Sun Life Plaza, North Tower 140 - 4th Avenue S.W. Calgary, Alberta T2P 3N3
Transfer Agent	The R-M Trust Company 700, 333 - 7th Avenue S.W. Calgary, Alberta T2P 2Z3
Shares	Listed on the Alberta Stock Exchange - Trading symbol DBN U.S. Securities and Exchange Commission registration number 82-2811 under exemption rule 12g3-2(b)

Abbreviations
bbls barrels
mcf thousand cubic feet
BOE barrels of oil equivalent
API a measure of crude oil density
W.I. working interest

Design: Ong,Lee Designs Ltd. Photography: Brian Harder Project Management: Evans Communications Inc.

DEEP
BASIN
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